Appendix II: Estimated Costs of State-Mandated Benefits

State	Key Features
Mental health parity (4 of 8 states reviewed applying parity to the small group market)	
State parity laws varied in the diagnoses for which parity was required as well as whether parity extended to the number of services (days or visits) and/or the cost-sharing amounts.	
Georgia[c]	• Coverage to same extent as physical illness for ICD/DSM[d] conditions • May impose mental health cost-sharing that does not apply to other benefits but deductible may not exceed deductible for medical/surgical benefits
Colorado	• Biologically-based mental illness may not be less extensive or have more restrictive prior authorization requirements than physical illness • Deductible same as for physical health benefits; copayment may not exceed 50%
Maryland	• No separate lifetime maximums, out-of-pocket limits, or separate deductible/copayment amounts for mental health benefits
Vermont	• No rate/term/condition that places greater financial burden on insured than treatment of physical conditions • Out-of-pocket limits/deductible must be comprehensive for both mental and physical conditions • Number of covered visits may not differ for mental and physical conditions
Organ transplants (2 of 8 states reviewed)	
Organ transplant mandates varied in the states we reviewed as to the types of procedures for which the mandates applied.	
Illinois	• Organ transplants must be covered with the exception of experimental and investigational procedures
Maryland	• Bone-marrow, cornea, kidney, liver, heart, lung, heart/lung, pancreas, and pancreas/kidney transplants

Source: GAO interviews with state officials, July 2003.

[a]The six biologically based conditions were schizophrenia, schizoaffective disorder, bipolar disorder, major depressive disorders, panic disorder, and obsessive-compulsive disorder.

[b]The International Classification of Diseases.

[c]Georgia requires insurers to offer coverage for treatment of mental disorders.

[d]Diagnostic and Statistical Manual of Mental Disorders.

Estimates vary widely regarding the costs of state-mandated health benefits, depending in part on the assumptions made to develop the estimates. Adding mandates to employer-based health coverage raises total costs only to the extent that employers would not have otherwise offered the benefits. However, few studies have examined the additional costs—referred to as marginal costs—of adding mandated benefits to a health insurance policy. Several studies have estimated the total costs

associated with mandated benefits even though many businesses may have offered these benefits without the mandate.[1]

Two studies that evaluated the marginal costs of adding mandated benefits—accounting for the extent to which employers otherwise may have included similar benefits—estimated relatively small cost increases. In 2000, the Congressional Budget Office (CBO) developed an estimate based on an earlier study that examined the frequency with which health insurance policies covered five benefits even though the state in which the policy operated did not require such coverage.[2] Because many policies would have covered some of the benefits even in the absence of a legal mandate, CBO concluded that the effective marginal cost of these state mandates was in the range of 0.28 to 1.15 percent. CBO estimated that benefit mandates in general might increase premiums by about 5 percent.

Maryland conducts an annual evaluation of the costs for each of its mandates.[3] In addition to estimating the total costs associated with the mandates, Maryland estimates a marginal cost, defined as the difference between the total cost of the benefit and the cost of the services that would be covered in the absence of the mandate. In 2001, the marginal cost of mandates in Maryland's small group market represented 3.4 percent of premiums, whereas the total cost accounted for 14.1 percent. In determining the marginal cost, Maryland considered the likelihood of coverage for certain benefits in the absence of state

[1]However, the benefits mandated may still increase costs if the benefits already being offered by the employer are less comprehensive than the minimums required by the mandate.

[2]The five benefits CBO included in its study—alcoholism treatment, drug abuse treatment, mental illness treatment, chiropractic services, and mandated continuation of health insurance for terminated employees and their dependents—were those identified by Jonathan Gruber in *State Mandated Benefits and Employer Provided Health Insurance* (National Bureau of Economic Research Working Paper, Cambridge, Mass: December 1992). See Congressional Budget Office, "Increasing Small-Firm Health Insurance Coverage Through Association Health Plans and HealthMarts," (Washington, D.C.: January 2000).

[3]Mercer Human Resource Consulting, *Mandated Health Insurance Services Evaluation*, a report prepared for the Maryland Health Care Commission (2002).

mandates based on a survey of self-funded employers exempt from benefit mandates.[4]

Some other states, including Texas and Virginia, have assessed the cost of state benefit mandates, but did not measure the marginal costs associated with mandates. In 2000, Texas contracted with the actuarial firm Milliman & Robertson to estimate the cost of 13 specific mandated benefits.[5] Assuming that none of the benefits would be covered by a policy in the absence of a mandate, the 13 benefits accounted for 6.3 percent of the average small group premium.[6]

Virginia requires all insurers, health service plans, and health maintenance organizations to report cost and utilization information for each of the state's mandated benefits and providers. Based on actual claims experience, insurers calculate the share of the overall average premium attributable to each mandate. Without taking into account whether benefits would be covered without a mandate, in 2000 the total costs associated with Virginia's mandates represented 26.87 percent and 29.28 percent of the overall premiums for individual and family group policies, respectively.[7] The study also did not distinguish total costs between the small and large group markets.

[4]Maryland's estimate represents what benefits self-funded businesses voluntarily cover, but because few small businesses self-fund and larger businesses may be more comprehensive in the benefits they voluntarily cover, this does not directly represent what small employers might choose to cover without mandates.

[5]Benefits included chemical dependency, complications of pregnancy, oral contraceptives, congenital defects, HIV/AIDS, mammography, prostate testing, serious mental illness, minimum maternity stay, minimum mastectomy stay, reconstructive surgery for mastectomy, handicapped dependents, and childhood immunizations. See Milliman & Robertson, *Cost Impact Study of Mandated Benefits in Texas*, (2000).

[6]This cost estimate accounts for indirect health care costs, such as follow-up screenings, and offsetting cost savings, such as lower future costs due to earlier detection and treatment of a disease, associated with the mandates.

[7]Commonwealth of Virginia, *Annual Report of the State Corporation Commission on the Financial Impact of Mandated Health Insurance Benefits and Providers*, (Richmond: 2002).